

EXHIBIT 56

National Council on Governmental Accounting Statement 1 Governmental Accounting and Financial Reporting Principles

STATUS

Issued: March 1979

Effective Date: Fiscal years ending after June 30, 1980

Affects: Restates 1968 GAAFR, incorporating "pertinent aspects of 'Audits of State and Local Governmental Units' (ASLGU), the 1974 industry audit guide of the American Institute of Certified Public Accountants (AICPA), as amended" (As of the issuance date of NCGAS 1, the ASLGU had been amended by AICPA SOPs 75-3, 77-2, and 78-7.)
Supersedes NCGAI 1

Affected by: Continued in force by [GASBS 1, ¶8](#) except to the extent superseded or amended by other NCGA pronouncements

[Summary Statement of Principles No. 1](#) amended by GASBS 34, ¶6

[Summary Statement of Principles No. 2](#) amended by GASBS 34, ¶6 and ¶75

[Summary Statement of Principles No. 3](#) amended by GASBS 6, ¶13 and ¶15; GASBS 31, ¶18; and GASBS 34, ¶63; superseded by GASBS 54, ¶29–¶35

[Summary Statement of Principles No. 5](#) amended by GASBS 6, ¶13 and ¶17; GASBS 34, ¶6, ¶30, ¶69, ¶80, ¶82, ¶92, and ¶108; GASBS 63, ¶8; and GASBS 84, ¶5

[Summary Statement of Principles No. 6](#) superseded by GASBS 34, ¶18

[Summary Statement of Principles No. 7](#) superseded by GASBS 34, ¶21, ¶22, ¶92, and ¶107

[Summary Statement of Principles No. 8](#) amended by GASBS 6, ¶15; GASBS 25, ¶20, ¶25, and ¶28; GASBS 31, ¶17 and ¶18; and GASBS 34, ¶6, ¶16, ¶79, ¶92, and ¶107

[Summary Statement of Principles No. 9](#) amended by GASBS 34, ¶130

[Summary Statement of Principles No. 10](#) amended by GASBS 20, ¶6; GASBS 34, ¶6, ¶53, ¶88, ¶89, ¶100, ¶101, and ¶112; and GASBS 37, ¶10

[Summary Statement of Principles No. 11](#) amended by GASBS 34, ¶15

[Summary Statement of Principles No. 12](#) amended by GASBS 9, ¶6; GASBS 10, ¶50; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66; GASBS 6, ¶25; GASBS 34, ¶6, ¶13–¶15, ¶63, ¶75, ¶80, ¶82, ¶106, and ¶125; and GASBS 61, ¶4

[Paragraph 2](#) amended by GASBS 34, ¶6

[Paragraph 3](#) amended by GASBS 34, ¶15, ¶80, and ¶82


[Paragraph 4](#) amended by GASBS 34, ¶6


[Paragraph 11](#) amended by GASBS 38, ¶9


[Paragraph 16](#) amended by GASBS 34, ¶6 and ¶75


[Paragraph 17](#) amended by GASBS 34, ¶80 and ¶82


[Paragraph 18](#) amended by GASBS 6, ¶13; GASBS 9, ¶6; GASBS 20, ¶6 and ¶7; GASBS 25, ¶11; GASBS 31, ¶18; and GASBS 34, ¶63, ¶64, ¶66, ¶69, ¶78, ¶79, ¶91–¶94, ¶106 and ¶107

Paragraph 152  superseded by GASBS 34, ¶101 and ¶112


Paragraph 153  interpreted by NCGAI 10, ¶12–¶14; amended by GASBS 14, ¶56; superseded by GASBS 34, ¶130


Paragraph 154  interpreted by NCGAI 10, ¶12–¶14; amended by GASBS 14, ¶11; superseded by GASBS 34, ¶130 and ¶131


Paragraph 155  interpreted by NCGAI 10, ¶12–¶14; amended by GASBS 14, ¶56 and GASBS 34, ¶130

Paragraph 156  amended by GASBS 9, ¶6; GASBS 14, ¶11, ¶19, ¶45, and ¶46; and GASBS 34, ¶96


Footnote 26  superseded by GASBS 9, ¶30–¶37


Paragraph 157  amended by GASBS 14, ¶51 and ¶61–¶63; GASBS 34, ¶6, ¶80, ¶82, ¶131, and ¶133; and GASBS 68, ¶47, ¶82, and ¶115


Paragraph 158  amended by NCGAI 6, ¶4 and ¶5 and all subsequent amendments to NCGAI 6; GASBS 27, ¶20–¶22; GASBI 2, ¶3; GASBS 34, ¶6, ¶113–¶123; and GASBS 38, ¶6, ¶7, ¶9, ¶10, ¶14, and ¶15

Paragraph 159  amended by GASBS 14, ¶61 and GASBS 34, ¶6, ¶80, ¶82, ¶126, and fn50


Paragraph 160  superseded by GASBS 44, ¶3


Paragraph 161  amended by GASBS 6, ¶25 and GASBS 34, ¶6; superseded by GASBS 44, ¶3

Paragraphs 162 and 163  amended by GASBS 14, ¶11, ¶51, and ¶63; superseded by GASBS 34, ¶6


Paragraph 164  amended by NCGAI 2, ¶3–¶6 and GASBS 14, ¶11, ¶51, and ¶63; superseded by GASBS 34, ¶6 and ¶122

Paragraph 165  superseded by NCGAI 2, ¶8

Paragraph 166  amended by GASBS 14, ¶11; superseded by GASBS 34, ¶6

Paragraph 167  amended by GASBS 9, ¶6; GASBS 10, ¶50; and GASBS 14, ¶19, ¶50, and ¶56; superseded by GASBS 34, ¶6

Paragraph 168  superseded by GASBS 34, ¶5

Paragraph 169  effectively amended by GASBS 1, Appendix B; superseded by GASBS 34, ¶5

Paragraph 170  amended by GASBS 9, ¶6; superseded by GASBS 34, ¶6

Paragraph 171  superseded by GASBS 34, ¶5

Paragraphs 173–175  amended by GASBS 34, ¶6

Other Interpretive Literature: GASBTB 2003-1  (Provides guidance on ¶158 )

Primary Codification Section References: Throughout

PREFACE

This Statement by the National Council on Governmental Accounting (NCGA) is a restatement of the principles of *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR or the "blue book"). That 1968 pronouncement of the predecessor National Committee on Governmental Accounting, published by the Municipal Finance Officers Association (MFOA), has gained widespread acceptance and acknowledgment as the primary authoritative statement on the application of generally accepted accounting principles to state and local governments.

The GAAFR Restatement Project constitutes a modest revision to update, clarify, amplify, and reorder GAAFR in order to provide immediate guidance for governmental accounting and financial reporting. An important objective is to incorporate pertinent aspects of *Audits of State and Local Governmental Units* (ASLGU), the 1974 industry audit guide of the American Institute of Certified Public Accountants (AICPA), as amended. NCGA Statement 1 supersedes NCGA Interpretation 1, "GAAFR and the AICPA Audit Guide." Issuance of the completed *Governmental Accounting and Financial Reporting*, the restated GAAFR, with illustrative chapters for funds and other important areas of coverage is planned for late 1979.

The NCGA due process procedures were followed in developing this Statement. The NCGA issued the "GAAFR Restatement: Introduction and Principles" Working Draft in March, 1977. Council deliberations, including consideration of comments received on the working draft, led to issuance of the February, 1978 "GAAFR Restatement Principles" Exposure Draft. Comments on that exposure draft led to further council deliberations. Thus, this Statement is the result of extensive NCGA deliberations and public comment.

The GAAFR Restatement Project will be followed by the NCGA Subsequent Research Phase. This effort will involve extensive research and analysis of issues and problems that indicate a need for change from current principles and practices, and may result in significant changes in recommended governmental accounting and reporting requirements.

This Statement is effective for fiscal years ending after June 30, 1980, although earlier application is encouraged. Its provisions need not be applied to immaterial items.

INTRODUCTION

Governmental accounting is an integral branch of the accounting discipline. It is founded upon the basic concepts and conventions underlying the accounting discipline as a whole and shares many characteristics with commercial accounting.

The government environment differs markedly from that of business enterprises, however, and the information needs to be met by governmental accounting systems and reports differ accordingly.

Thus, a set of basic principles¹ applicable to governmental accounting and reporting has been developed for and utilized by governmental units. As developed by this Council and its predecessor Committees since 1934, these principles are specific fundamental tenets which, on the basis of reason, demonstrated performance, and general acceptance by public administrators, accountants, auditors, and others concerned with public financial operations, are generally recognized as essential to effective management control and financial reporting.

These basic principles are stated and explained in this Statement. These principles and illustrations provide guidance primarily for accounting and reporting for governmental operations that are different from those of business enterprises. Accounting and reporting for government operations that are similar to business enterprises closely parallel commercial accounting and reporting, and pertinent business accounting practices and professional pronouncements are applicable.

SUMMARY STATEMENT OF THE PRINCIPLES

Accounting and Reporting Capabilities

1. A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and

(b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Fund Accounting Systems

- ◆ 2. Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

◆ Types of Funds

- 3. ◆ The following types of funds should be used by state and local governments:

Governmental Funds

- (1) *The General Fund*—to account for all financial resources except those required to be accounted for in another fund.
- (2) *Special Revenue Funds*—to account for the proceeds of specific revenue sources (other than ◆ special assessments, expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.
- (3) *Capital Projects Funds*—to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, ◆ Special Assessment Funds, and Trust Funds.)
- (4) *Debt Service Funds*—to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- ◆ (5) *Special Assessment Funds*—to account for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied.

Proprietary Funds

- (6) *Enterprise Funds*—to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- (7) *Internal Service Funds*—to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

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- ◆ (8) *Trust and Agency Funds*—to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Nonexpendable Trust Funds, (c) Pension Trust Funds, and (d) Agency Funds.

Number of Funds

4. Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

Accounting for Fixed Assets and Long-Term Liabilities

5. A clear distinction should be made between ◆ (a) fund fixed assets and general fixed assets and (b) fund long-term liabilities and general long-term debt.
 - a. Fixed assets related to specific proprietary funds or ◆ Trust Funds should be accounted for through those funds. All other fixed assets of a governmental unit should be accounted for through the ◆ General Fixed Assets Account Group.
 - ◆ b. Long-term liabilities of proprietary funds, ◆ Special Assessment Funds, and ◆ Trust Funds should be accounted for through those funds. All other unmatured general long-term liabilities of the governmental unit should be ◆ accounted for through the General Long-Term Debt Account Group.

◆ Valuation of Fixed Assets

6. Fixed assets should be accounted for at cost or, if the cost is not practicably determinable, at estimated cost. Donated fixed assets should be recorded at their estimated fair value at the time received.

◆ Depreciation of Fixed Assets

7.
 - a. Depreciation of general fixed assets should not be recorded in the accounts of governmental funds. Depreciation of general fixed assets may be recorded in cost accounting systems or calculated for cost finding analyses; and accumulated depreciation may be recorded in the General Fixed Assets Account Group.
 - b. Depreciation of fixed assets accounted for in a proprietary fund should be recorded in the accounts of that fund. Depreciation is also recognized in those Trust Funds where expenses, net income, and/or capital maintenance are measured.

◆ Accrual Basis in Governmental Accounting

- ◆ 8. The modified accrual or accrual basis of accounting, as appropriate, should be utilized in measuring financial position and operating results.
 - a. ◆ Governmental fund revenues and expenditures should be recognized on the ◆ modified accrual basis. Revenues should be recognized in the accounting period in